

**NORTH LINCOLNSHIRE COUNCIL**

**CABINET**

**2022/23 FINANCIAL POSITION UPDATE**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1. To provide an update on the Council's in-year financial position.
- 1.2. To identify the implications for the Council's medium term financial plan position and financial planning process for the 2023/24 budget setting process.
- 1.3. To note the latest revenue budget and capital position.
- 1.4. To note the treasury management position against the prudential code targets.

**2. BACKGROUND INFORMATION**

- 1.1. People remain at the heart of everything the Council does. As an outcome led and experience focussed organisation resources are invested to achieve the greatest impact whilst providing value for money for local taxpayers. Finance is a key enabler used to consider and evaluate the way we operate to realise efficient processes and deploy the fewest best interventions. As the Council faces fiscal challenge, we continue to prioritise resources in collaboration with partners, residents, communities and business to ensure financial resilience and sustainability.
- 1.2. In February 2022, Council approved plans to invest £169.8m of revenue resource in 2022-23 and £137.8m of capital resource over a four-year period to support delivery of the Council plan, achieve its strategic objectives and legal duties for the benefit of residents and businesses. The financial strategy guides this and provides the mechanisms to ensure the council is financially sustainable and resilient.
- 1.3. At the time of setting the budget and medium-term financial plan the national economic outlook was that inflation would peak at 7.25% in April 2022 and begin to decline, taking two years to return to 2% target levels. The September 2022 rate of consumer price inflation (CPI) increased to 10.1%. The Bank of England currently expects inflation to fall sharply to below the 2% target in two years' time.
- 1.4. In line with good financial management practices, the council's use of resources is closely monitored and reported to the executive. This report

provides information on the current financial position and will inform the next stages of financial planning, taking account of the risks and opportunities in respect of financial sustainability.

#### Financial Position 2022/23 at Quarter 2

- 1.5. The current forecast indicates net operating expenditure could be £179m by the end of 2022/23, which would be 2.3% or £4.2m more than the adjusted budget.
- 1.6. The forecast outturn has improved since quarter one following pro-active action taken over the summer. The ongoing impact of these actions alongside increased certainty over the second half of the year will further reduce the final outturn to achieve a balanced position at year end. Further detail in Appendix 1.

#### Financial Resilience Context

- 1.7. The Council approved a reserve strategy which governs the deployment of reserves based on risk profiles. The current period of inflation represents a material change of circumstances. The additional £5.0m reserve use approved by Cabinet on 19<sup>th</sup> September is still considered to be a prudent approach to mitigate these additional pressures in year.
- 1.8. Whilst reserves can be used to balance budgets in a planned way, it is not sustainable in the longer term and unplanned use carries risks. Therefore, the financial planning process seeks to ensure a robust and realistic budget is achieved and it is expected this will include planned use of reserves from 2023/24 as part of the medium-term financial plan.

#### Medium Term Financial Plan

- 1.9. The Council's financial planning process includes the 2023/26 medium term financial plan being taken to Full Council in January 2023 alongside proposals for a balanced budget for the next financial year. The opening position presented to Cabinet in September included the following assumptions:
  - Pay award for 2022/23 (now confirmed)
  - No further increase in activity volumes in adult social care or special educational needs
  - That the national policy reforms such as Fair Cost of Care will be cost neutral with government grant
  - No additional national funding beyond that assumed in previous MTFP setting
  - Collection rates for NNDR and Council Tax remain stable
  - Council tax rate increase of 2.99% pa (the referendum combined CT/ASC limit)
- 1.10. The financial planning process continues, underpinned by the operating model of One Council, One Family, One Place.

1.11. The funding element of the medium term financial plan will be informed by confirmation of local government spending power through the Chancellor's budget statement on 17<sup>th</sup> November which will set out the outcome of spending plan reviews and any changes and assumptions.

#### Budget Policy Framework

1.12. In addition to reporting the latest revenue financial position, the local budgetary policy framework requires reports on changes to revenue and capital budgets within prescribed virement rules and monitoring against treasury management prudential code. Appendix 3 provides the latest information, indicating the required approval.

### **3. OPTIONS FOR CONSIDERATION**

1.13. To receive an update on the financial position of the organisation.

### **4. ANALYSIS OF OPTIONS**

1.14. The analysis is outlined in the background information in section 2 and in the supporting appendices.

### **5. FINANCIAL AND OTHER RESOURCE IMPLICATIONS (e.g. LEGAL, HR, PROPERTY, IT, COMMUNICATIONS etc.)**

1.15. The potential financial implications of the risks identified within this report have been considered in detail within the relevant section. It remains the case that the Council needs to be adaptive and influence in the areas where it is able. The Council holds reserves to mitigate against expenditure and income shocks and other unforeseen events, to provide capacity to withstand shocks and time to plan cost base adjustments which reflect the emergent position.

1.16. The opening balance and revised closing balance of the Risk and Transformation Reserve is shown below:

<b>Risk and Transformation Reserve (excl self-insurance)</b>	<b>£000's</b>
Opening balance 1.4.2022	32,191
Planned use - approved budget 2022/23	(2,369)
Budgeted closing balance	29,822
Agreed increase in planned use 2022/23	(5,000)
<b>Revised closing balance 31.3.2023</b>	<b>24,822</b>

Based upon current analysis and assessment of financial resilience, it is recommended that the Council should aim to retain a balance of at least £10m of risk reserves to cover residual risk mitigations. The proposed closing balance enables short to medium-term plans to smooth transition to a sustainable budget, assuming a high-level of confidence in deliverability of plans.

**6. OTHER RELEVANT IMPLICATIONS (e.g. CRIME AND DISORDER, EQUALITIES, COUNCIL PLAN, ENVIRONMENTAL, RISK etc.)**

1.17. Not applicable.

**7. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

1.18. Not applicable.

**8. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

1.19. Not applicable.

**9. RECOMMENDATIONS**

1.20. To note the financial position set out in the report.

1.21. To note the budget adjustments approved under delegated powers and the revised budget position for 2022/23.

1.22. To note the progress against the approved Treasury Management Strategy and prudential code indicators.

DIRECTOR OF GOVERNANCE AND PARTNERSHIPS

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Date: Monday 7<sup>th</sup> November 2022

**Background Papers used in the preparation of this report**

Reports to Full Council:

- Financial Strategy, Budget 2022/23 and Medium-Term Financial Plan 2022/25
- Capital Investment Strategy and Capital Programme 2021/2025
- Treasury Management and Investment Strategy 2022/23

Reports to Cabinet:

- Financial Position Update (Cabinet September 2022)

Other background papers:

- Q2 revenue and capital budget adjustments
- Technical Review – Economic Outlook

**Table 1 – Revenue Net Operating Expenditure Forecast (based on Q2 financial management reporting)\***

<b>BY ACCOUNTABILITY</b>	<b>Budget £m</b>	<b>Forecast £m</b>	<b>Core Variance £m</b>	<b>DSG Variance £m</b>
Adult Social Services	22.8	23.8	1.0	-
Adults Early Help & Prevention	22.4	26.2	3.8	-
Integrated Health & Care	4.2	4.2	-	-
Education	4.3	4.6	0.2	0.1
Children's Help & Protection	10.0	9.3	(0.7)	-
Children's Standards & Regulation	10.8	9.8	(1.0)	-
Place	27.0	30.9	3.9	-
Public Protection	1.4	1.6	0.2	-
Organisational Development	15.3	17.2	1.9	-
Governance & Partnerships	5.0	5.3	0.3	-
Resources & Performance	8.2	7.9	(0.3)	-
Community Enablement	7.7	8.3	0.6	-
Public Health	7.3	6.9	(0.4)	-
Central and Technical	23.4	23.0	(0.4)	-
<b>Net Operating Expenditure</b>	<b>169.9</b>	<b>179.1</b>	<b>9.2</b>	<b>0.1</b>
Approved increase in use of reserves 2022/23	5.0	-	(5.0)	-
<b>Revised Net Operating Expenditure</b>	<b>174.9</b>	<b>179.1</b>	<b>4.2</b>	<b>0.1</b>

**Table 2 – Spending Power Forecast (based on Q2 financial management reporting)**

<b>SPENDING POWER</b>	<b>Budget £m</b>	<b>Forecast £m</b>	<b>Variance £m</b>
Council Tax & Business Rates	(133.0)	(133.0)	-
Specific Government Grants	(27.8)	(27.8)	-
Non- Specific Government Grants	(7.6)	(7.6)	-
Reserves	(1.5)	(1.5)	-
<b>Total Spending Power</b>	<b>(169.9)</b>	<b>(169.9)</b>	<b>-</b>
Approved additional use of reserves 2022/23	(5.0)	(5.0)	-
<b>Total Spending Power</b>	<b>(174.9)</b>	<b>(174.9)</b>	<b>-</b>

\* figures subject to rounding

**Table 3 – Identified impact of higher inflation**

<b>Area of impact</b>	<b>Cost pressure (£m)</b>
<b>Pay</b> - the 2022/23 pay award reflects a flat increase of £1,925 to all spinal column points and is reflected in the forecast.	4.1
<b>Energy costs</b> – the increase in wholesale rates has a lag effect on the rate paid by the Council, although this	1.4

may increase reflecting recent changes in wholesale rates.	
<b>Street lighting</b> – based on the increased unit cost of electricity, this would be much higher had it not been for the switch to LED bulbs	0.8
<b>Transport/fleet/fuel</b> – the price of fuel has increased significantly during 2022/23, although has started to slowly fall back.	1.0
<b>Waste</b> – existing contract mechanisms are expected to lead to increase costs	0.4
<b>Social care</b> – inflation has contributed to the scale of increase in the cost of care rates where packages are agreed outside of existing framework arrangements, often due to increased complexity.	1.7
<b>Estimated impact of inflation</b>	<b>9.4</b>
Contingency to Allocate	(2.0)
<b>Net Inflation Position</b>	<b>7.4</b>

**Table 4 – Capital position 2022/23 forecast**

<b>CAPITAL – outturn forecast at Q2; budget reflects rephasing previously reported</b>	<b>Budget £000's</b>	<b>Forecast Spend £000's</b>	<b>Year to Date Spend £000's</b>
<b>EXPENDITURE</b>			
Keeping People Safe and Well	10,866	10,358	1,809
Enabling Resilient and Flourishing Communities	12,227	12,275	4,733
Enabling Economic Growth and Renewal	26,713	27,498	6,309
Running the Business Well	9,513	6,619	1,179
Additional Investment Allocation	-	-	-
<b>TOTAL EXPENDITURE</b>	<b>59,318</b>	<b>56,750</b>	<b>14,029</b>
<b>FINANCING</b>			
External & Grant Funding	(33,792)	(33,995)	-
Council Resources	(25,527)	(22,755)	-
<b>TOTAL FINANCING</b>	<b>(59,318)</b>	<b>(56,750)</b>	<b>-</b>

### **Analysis of Revenue 2022/23**

1. The Council's Net Operating Expenditure represents the day-to-day costs of council service delivery. The Council has a strong track record of managing financial risk, with continuous improvement and implementation of efficient delivery models that achieve the best outcomes for residents. Adapting to an ever-changing operating environment will continue to be essential and embodies the actions of a financially sustainable organisation.
2. The Council conducts an organisation wide financial management exercise that seeks to monitor progress against approved financial plans on a quarterly basis, with targeted monitoring occurring during intervening periods and focussing on high-risk areas. Quarter two provides an opportunity to understand areas which are at risk of diverging from the assumed plan and implement mitigations.

### Risk Mitigation Action

3. Financial management activity has reduced the forecast outturn to the level reported in Table 1 and includes:
  - **Targeted financial management** – through AD focus on subjective spend with scrutiny across all cost lines including agency, overtime, supplies and services and income targets
  - **Robust contract management**
  - **Revisiting energy supply contracts** to ensure best rates.
  - **Vacancy savings – in-year adjustments** – as part of budget setting, an organisational level vacancy reduction was applied at £2.5m (reflecting historic levels of salary cost compared to budget) which was met through a quarterly budget adjustment based on assessment of net staffing spend (including agency/vacancy factor) against profiled budget up to period 6. The balance of any vacancy savings are expected to be used to mitigate cost pressures.

### Inflation Risks

4. A technical review of the economic outlook provides a basis for the forecasts and assumptions required in the medium-term financial plan. The cost base is at risk of increasing much faster than spending power and Table 3 above summarises the inflationary impact that has been identified to date.

### Non-Inflation Risks

5. The Council's financial plans make assumptions with regards to the extent of the scale and scope of interventions that will be required to achieve strategic objectives. The operating environment is affected by the ongoing recovery from Covid-19 and therefore the impact of this is reflected in the level of demand across Adult Social Care. There is a focussed transformation programme established as part of risk mitigation in addition to preparing for the upcoming national policy changes. The complexity of need is also impacting upon special educational needs transport which is not covered by Dedicated Schools Grant.
6. The net operating cost includes income from fees and charges. For commercially trading services financial principles require full cost recovery. Over recent years more schools are considering alternative contractual options for the provision of school meals and this impacts on the residual cost of the council's catering facility. An action plan is in place to rectify this and remove the residual financial risk to the council.
7. Leisure membership numbers are continuing to recover and further development of the 'physical activity as medicine' offer is providing some mitigation.

### Cost Reduction Opportunities

8. The policy intent adopted locally for Children's Social Care has resulted in a reduction in regulatory care activity. At present, this is contributing an underspend which is helping to offset some pressures elsewhere such as home to school transport.

9. The cost of capital financing is forecast to be lower than budget, which reflects an increase in interest receivable due to higher interest rates, and a modest reduction in the cost of minimum revenue provision because of capital rephasing.
10. It is anticipated that the impact of in-year mitigations and action planning that is being applied and increased certainty over Q3 will lead to a balanced final outturn position after the in-year budget adjustment of a £5m use of reserves.



1. The Council’s Budget Setting meeting for 2023/24 is scheduled for 18<sup>th</sup> January 2023. The council has a duty to set a balanced budget for 2023/24 in the context of a robust medium term financial plan.

Assessment of Financial Resilience

2. Financial resilience, the ability to weather financial shocks, is an important consideration for council sustainability. There are several indicators of the current health of council finances, which form part of the overall consideration in determining financial plans and budgets.
3. The Council has an inherent culture of cost control and demand management, which has been invaluable to date and will continue to be required going forward. The assessment of the Council’s financial resilience allows for the planned use of reserves over the medium term.

Material Change of Circumstances

4. The external changes in the economic outlook represent a material change of circumstances from when the Council set the previous medium term financial plan. The financial risks to the Council, before considering service specific changes, are inflation (energy, pay and contracts), the cost of borrowing and the potential implications for local taxation collection.

National Policy and Funding Prospects for North Lincolnshire Council

5. The Council operates within a public financing and delivery framework determined by the Government. The latest spending review in 2021 determined government departmental budgets up to 2024-25 in the context of the national economy and state of public finances. The Chancellor’s budget statement on 17<sup>th</sup> November will provide more certainty and context to the financial planning process.
6. The 2022/25 medium term financial plan assumed that spending power would increase in 2023/24 and 2024/25 to reflect an increase in council tax, business rates and grant funding (predominantly due to social care specific funding with associated spending requirements).

2023/26 Medium Term Financial Plan (MTFP)

7. The 2023-26 MTFP funding envelope assumptions model as a best-case scenario of 9.7% growth. This balances against best-case cost projections of 16.5% increase.

MANAGEMENT ACCOUNTABILITY	2022/25 MTFP			2023/26 MTFP		
	2023/24 £000's	2024/25 £000's	2025/26 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's
Net Operating Expenditure	178,215	187,517	-	186,836	197,638	203,638
Forecast Spending Power	(174,354)	(182,186)	-	(174,354)	(182,186)	(186,817)
<b>Cost Reductions in Development</b>	<b>(3,861)</b>	<b>(5,331)</b>	<b>-</b>	<b>(12,482)</b>	<b>(15,452)</b>	<b>(16,821)</b>

8. There are other risks and opportunities that are being evaluated as part of the financial planning process, not yet reflected in the revised medium term financial plan. These include:
- Increases in activity volumes and complexity within adult social care (including residential care)
  - Ability to mitigate existing 2022/25 MTFP risk and uncertainty in respect of future year cost/subsidy reductions
  - A revised Spending Review and Autumn Budget that prioritises funding for local government and/or mitigates against energy related inflation costs

#### Actions and Next Steps

9. Building upon the mitigating actions being taken to resolve the financial challenge in-year, outlined in Appendix 1, whole council action planning continues.
10. Action planning is underpinned by the operating model of One Council, One Family, One Place. Directors and Assistant Directors as commissioners are taking a whole system approach, planning the scale and scope of the offer required to achieve desired outcomes and minimising interventions alongside enabling infrastructure and administration functions. The activity to consider opportunities for achieving a financially sustainable plan and balanced budget includes:
- Piloting systems approach to care and support arrangements with partners
  - Reviewing utilisation of council and community assets
  - Evaluating existing contracts and delivery models
  - Modelling the financial impact of one council operating models
  - Re-assessing funding assumptions and optimising sources of income
  - Assessing impact of investment against outcomes balancing affordability and risk
11. The MTFP will set sustainable budget targets that will be challenging to achieve, however our whole council commitment to proportionate financial management, stewardship and accountability will be fundamental to achieving this alongside a planned use of reserves.
12. The timetable which will guide the financial planning process is as follows:

Stage	Date
Reporting of current position and revision of opening position for 2023/26 Business Partnering challenge and advice to Assistant Director and Accountable Managers in identifying cost base changes Co-production of long list of options for balanced budget Financial Strategy finalisation	Sep 2022
Collation of workstreams into revised MTFP position with revised gap and Resource prioritisation process consideration by the Executive	Oct 2022
Autumn Budget and Spending Review 2022	17 <sup>th</sup> Nov 2022
2022/23 Q2 Financial Management and Medium-Term Financial Plan Update report to Cabinet	21 Nov 2022
Revised MTFP position	Dec 2022
Local Government Finance Settlement 2023/24	Dec 2022
Setting the Council Tax Base 2023/24 report to Full Council	5 Dec 2022
Setting the National Non-Domestic Tax Yield 2023/24 report	10 Jan 2023
Review by Governance scrutiny panel.	w/c 3 Jan 2023
2022/23 Q3 Financial Management and Medium-Term Financial Plan Update report taken to Cabinet for endorsement	16 Jan 2023
Full Council budget setting meeting to consider: <ul style="list-style-type: none"> <li>• Financial strategy, revenue budget 2023/24 &amp; medium-term financial plan 2023/26</li> <li>• Capital investment strategy 2023/26</li> <li>• Treasury management strategy 2023/24</li> <li>• Pay policy statement 2023/24</li> <li>• All other relevant resolutions (e.g. council tax)</li> </ul>	18 Jan 2023

Table 1 – Revenue Investment (Accountability Structure)

<b>2022/23 REVENUE INVESTMENT: BY SERVICE</b>	<b>Q1 Revised Approved Budget £000's</b>	<b>Technical Budget Transfers £000's</b>	<b>Q2 Revised Approved Budget £000's</b>
Adults & Health	49,639	(284)	49,355
Children & Families	25,879	(716)	25,163
Economy & Environment	44,629	(920)	43,709
Governance & Communities	21,472	(498)	20,974
Public Health	7,295	(37)	7,258
<b>SERVICE TOTAL</b>	<b>148,914</b>	<b>(2,455)</b>	<b>146,459</b>
Central & Technical	20,937	2,455	23,392
<b>NET OPERATING EXPENDITURE</b>	<b>169,851</b>	<b>-</b>	<b>169,851</b>
Additional Use of Risk and Transformation Reserve			5,000
<b>REVISED NET OPERATING EXPENDITURE LIMIT</b>			<b>174,851</b>

Table 2 – Revenue Investment (Council Plan Priority)

<b>2022/23 REVENUE INVESTMENT: BY PRIORITY</b>	<b>Current Budget £000's</b>
Keeping People Safe and Well	81,210
Enabling Resilient and Flourishing Communities	33,673
Enabling Economic Growth and Renewal	9,249
Providing Value for Money for Local Taxpayers	45,719
Additional use of Risk and Transformation Reserve	5,000
<b>NET OPERATING EXPENDITURE</b>	<b>174,851</b>

**Table 3 –Treasury Prudential Indicators 2022/23**

	2022/23	
	Budget (Feb 2022)	Forecast (Q2)
	£M	£M
Estimates of capital expenditure	47.2	56.7
General Fund ratio of financing	%	%
Costs to the net revenue stream %	7.00	6.86
	£M	£M
An estimate of the capital financing requirement	255.4	no change
	£M	£M
The authorised limit for external debt:		
borrowing	275.4	no change
other long-term liabilities	10.0	
total	285.4	
	£M	£M
The operational boundary for external debt:		
borrowing	255.4	no change
other long-term liabilities	10.0	
total	265.4	
	Upper %	Upper %
maturity structure of fixed interest rate borrowing 2022/23		
under 12 months	30.0	
12 months to 2 years	30.0	
2 years to 5 years	40.0	
5 years to 10 years	45.0	no change
10 years to 20 years	50.0	
20 years to 30 years	75.0	
30 years to 40 years	60.0	
40 years to 50 years	25.0	
	%	%
maturity structure of variable interest rate borrowing 2022/23		
under 12 months	100.0	
12 months to 2 years	90.0	
2 years to 5 years	90.0	
5 years to 10 years	90.0	no change
10 years to 20 years	50.0	
20 years to 30 years	20.0	
30 years to 40 years	10.0	
40 years to 50 years	10.0	
	£M	£M
Total principal sums invested for periods longer than 364 days	0	no change